

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, November 16, 2007  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Vice Chair of the ASRS Board, called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Dr. Keith Meredith, Vice Chair  
Mr. Dave Byers  
Mr. Tom Connelly  
Mr. Chris Harris  
Mr. Jaime Gutierrez (via teleconference)  
Mr. Lawrence Trachtenberg  
Mr. Steven Zeman

Absent: Mr. Michael Townsend, Chair  
Mr. Jim McLaughlin

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**Motion:** Mr. Chris Harris moved to approve Refunds, Death Benefits, Retirements and System Transfers for the month of September, 2007;

*And*

Approve the minutes of the October 19, 2007, Regular Session of the ASRS Board.

Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

**3. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decisions**

Dr. Keith Meredith asked if there were any requests to speak or comments regarding Mr. James Culbreth's appeal. There were none.

**Motion:** Mr. Steve Zeman moved to accept the ruling of the Administrative Law Judge, correcting the Decision, page two, paragraph 7.b., line 13 to accurately reflect Lisa King's testimony. Paragraph 7.b should be corrected to read, "Effective as of September 15, 1989, which was after Appellant's retirement..."

Mr. Chris Harris seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Mr. Charles Miller, Retiree, addressed the Board regarding his appeal. Mr. Miller thanked the ASRS staff for their professionalism and requested that the Board consider his request. Mr. Miller explained this his wife passed away only six month after she retired. He would like to change the form of retirement she selected because her death was so untimely.

Mr. Dave Byers offered his sympathy and asked for the Assistant Attorney General, Mr. Tom McClory, to explain to Mr. Miller that the Board is unable to grant the decision Mr. Miller would like due to state law.

Mr. Tom McClory explained that there is no statutory authority to grant his request.

**Motion:** Mr. Chris Harris moved to accept the ruling of the Administrative Law Judge.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding the Final Rulemaking for Administrative Rule Article 2, State Retirement Defined Contribution Program (the System) Section R2-8-202**

Mr. Pat Klein and Ms. Susanne Dobel addressed the Board regarding final rulemaking for Administrative Rule Article 2, State Retirement Defined Contribution Program, Section R2-8-202. Ms. Dobel explained that in October 2006, the Board approved a change to Administrative Rule Article 2, State Retirement Defined Contribution Program Actuarial Assumptions. The change was to adopt a new mortality table, referred to as a generational mortality table. Staff filed a docket opening for that rule. Subsequent to that action and based upon further study, the actuary recommended an additional change to the mortality table to include factors for income. These factors will reflect the longer life expectancies of people who receive higher incomes.

The ASRS filed a Notice of Proposed Rulemaking on this article on July 6, 2007, that included both changes. The public hearing was held on August 20, 2007, and no comments were received. The Notice of Final Rulemaking was submitted to the Governor's Regulatory Review Council for inclusion on the agenda for December 4, 2007, pending the approval of the EAC, which was given at their meeting on November 2, 2007, and the Board.

**Motion:** Mr. Tom Connelly moved to approve final rule R2-8-202 Actuarial Assumptions, which includes that for both valuation and benefit determination purposes the System will use a generational mortality table beginning July 1, 2008, and for valuation purposes only, the System will use a mortality table that incorporates the high income effect beginning July 1, 2008.

Mr. Steve Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

#### **5. Presentation, Discussion and Appropriate Action Regarding Risk Management of the System Assets and Excess Surplus**

Mr. Paul Matson and Mr. Charlie Chittenden, Actuary, Buck Consultants, addressed the Board regarding risk management of the System assets and excess surplus. Mr. Chittenden explained that ASRS rules permit the board to increase benefits whenever the funded status of the System exceeds 105%. The board must cut benefits when the funded status falls below 95% to the extent necessary to restore the funded status to 95%.

In the most recent valuation, the funded status of the System was 119.84% based on the current mortality table and 115.87% based on a proposed mortality table that recognizes future longevity improvements and the mortality of higher income annuitants. When the board increases benefits, retirees receive a 13<sup>th</sup> check (paid annually) and non-retired members receive an addition to their non-guaranteed balances.

Mr. Chittenden presented to the Board various scenarios within a proposed framework that are designed to address the possibility of future benefit reductions and control the risk to members associated with asset volatility.

Mr. James Burke, Retiree, and addressed the Board regarding the proposed plan.

Mr. Uwe Fink, Retiree, addressed the Board regarding the proposed plan.

Mr. Dave Byers left the meeting at 9:26 a.m.

**Motion:** Mr. Steve Zeman moved to adopt the proposed Risk Management Framework that considers both the assets as well as liabilities, and focuses on surplus risk reduction and benefit payment risk reduction in concert with potential distributions of future excess earnings of the System.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

#### **6. Presentation, Discussion and Appropriate Action Regarding the Possible Distribution or Non-distribution of the Excess Surplus**

Mr. Paul Matson addressed the Board regarding the possible distribution or non-distribution of the excess surplus. Mr. Matson stated that investment returns in fiscal year 2007 were 17.8%. If the return for 2008 is less than 8%, the System will have an investment loss, and such a loss will be fully reflected in the funded status as of June 30, 2008. If the funded status declines below 95%, the Board must reduce benefits, and if the funded status declines below 100%, there would be reliance on investment earnings to be above 8%.

Given the current volatility in the financial markets, the impact of the pending liability assumption changes, and the new Risk Management Framework, it is believed that maintaining the current level of benefits is prudent.

**Motion:** Mr. Chris Harris moved to not allocate excess surplus at this time.

Mr. Steve Zeman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

#### **7. Presentation, Discussion and Appropriate Action Regarding the Plan Valuation Including Retirement and Health Supplement Benefits**

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Ms. Michelle DeLange, Consultant, Buck Consultants, addressed the Board regarding the Plan Valuation including retirement and health supplement benefits. Mr. Chittenden and Ms. DeLange summarized the Plan Valuation by noting items of interest including the upcoming change in contribution rate from 9.1% to 8.95%. The permanent benefit increase (PBI) for 2007 is \$0.00.

Ms. Linda Somo, AEA Retired, addressed the Board regarding the 10-year smoothing method utilized for the valuation. Ms. Somo expressed some concern that this may have an effect on the granting of a PBI to retired members. Mr. Paul Matson and Mr. Chittenden explained that the 10-year smoothing technique creates a more stable contribution rate which is desirable.

**Motion:** Mr. Steve Zeman moved to accept the Plan Valuation as presented to the Board.

Mr. Chris Harris seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

#### **8. Presentation, Discussion and Appropriate Action Regarding the LTD Plan Valuation**

Mr. Charlie Chittenden and Ms. Michelle DeLange addressed the Board regarding the LTD Plan Valuation. Mr. Chittenden and Ms. DeLange summarized the LTD Plan Valuation by noting items of interest.

**Motion:** Mr. Steve Zeman moved to accept the LTD Plan Valuation as presented to the Board.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

#### **9. Presentation, Discussion and Appropriate Action Regarding 2008 ASRS Legislation**

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding 2008 ASRS legislation. Ms. Sorensen provided a summary of the proposed legislation for 2008. Items proposed include technical and federal conforming changes, Defined Benefit Plan and Long Term Disability Plan unclaimed property exemption and procedure, effect of transfers out of ASRS and Payroll Deduction Agreements. For legislative items concerning the defined benefit plan design the role of the Board will be to provide information.

**Motion:** Mr. Steve Zeman moved to accept the 2008 legislative initiatives presented by Staff. The Board supports all initiatives with the exception of the Rule of 85 and Average Monthly Salary provisions, on which the Board shall have a neutral position, but shall provide information to the Legislature on the impact of the initiatives on the Fund. Staff may make all language changes and negotiate as necessary to obtain the most effective and efficient legislative provisions within the construct of today's discussion.

Mr. Chris Harris seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

## **10. Presentation, Discussion and Appropriate Action Regarding ASRS Small Cap Equity Manager Search and Selection Recommendation**

Mr. Gary Dokes, Chief Investment Officer, Mr. Michael Viteri, Manager of Portfolio and Trading Strategies, and Mr. Terry Dennison, Worldwide Partner, Mercer, addressed the Board regarding ASRS Small Cap Equity Manager search and selection recommendations. Mr. Dokes stated that the ASRS Small Cap Equity Search Committee (Committee) was established and consisted of the IC Chair, CIO, IMD staff (Manager of Portfolio and Trading Strategies, Manager of Investment Strategies, and Senior Portfolio Analyst) and Mercer Investment Consulting. As a result of discussions with the Committee, Mercer developed a list of eighteen candidate managers. The Committee selected nine managers to be interviewed, of which four managers were subsequently selected and identified for further diligence and analyses.

Diligence visits were conducted by the IMD staff at Champlain Investment Partners (Burlington, Vermont) and CopperRock Capital Partners (Boston, Massachusetts). Given Committee members' greater familiarity with IronBridge, it was determined that funding could take place in advance of an on-site visit. The on-site visits consisted of one-on-one meetings with all investment professionals (project managers, analysts, traders) and compliance officers and did not uncover unforeseen concerns.

**Motion:** Mr. Larry Trachtenberg moved to approve the hiring of and funding from the ASRS E6 Portfolio the following investment managers:

- Champlain Investment Partners (Small Cap Core) with approximately \$100 million
- IronBridge Capital Management (SMid Cap Core) with approximately \$160 million
- CopperRock Capital Partners (SMid Cap Growth) with approximately \$100 million

Mr. Tom Connelly seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

## **11. Presentation, Discussion and Appropriate Action Regarding the 2008 Board Calendar**

Mr. Paul Matson, Director, addressed the Board regarding the 2008 Board calendar. The proposed dates in 2008 are February 15, March 21, April 18, May 16, July 18, August 15, September 19, October 17, November 21, and December 19. All Board meetings will begin at 8:30 a.m. except for the September 19 meeting, which will begin at 1:00 p.m.

**Motion:** Mr. Steve Zeman moved to accept the 2008 Board calendar as presented to the Board.

Mr. Tom Connelly seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

## **12. Presentation, Discussion and Appropriate Action Regarding the Presentation of the GFOA Award**

Mr. Paul Matson addressed the Board regarding the presentation of the GFOA Award. Mr. Matson stated that the ASRS received the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its June 30, 2006, Comprehensive Annual Financial Report (CAFR). This is the eighteenth year that the ASRS has received this prestigious award. A Certificate of Achievement is

presented by the GFOA to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

Mr. Matson recognized Ms. Nancy Linssen, Assistant Director, Financial Services Division, Ms. Valerie Fenske, Comptroller, and Ms. Pam Vozza, Communications Specialist, for their efforts.

### **13. Director's Report**

Mr. Paul Matson announced that the ASRS had received the Public Pension Coordinating Council (PPCC) Award. Mr. Matson recognized Susanne Dobel, Manager, External Affairs, for her efforts.

### **14. Possible Presentation Regarding Board Committee Updates**

Mr. Steve Zeman, Vice Chair, External Affairs Committee, stated that there would be an External Affairs Committee meeting on December 7, 2007.

Mr. Larry Trachtenberg, Chair, Investment Committee, stated that there would be an Investment Committee meeting on December 5, 2007.

Dr. Keith Meredith, Operations Committee, stated that there would be an Operations Committee meeting on December 21, 2007, after the regular meeting of the Board.

### **15. Board Requests for Agenda Items**

There were no requests for future agenda items.

### **16. Call to the Public**

There were no requests to speak.

### **17. The next ASRS Regular Board meeting is scheduled for Friday, December 21, 2007, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

### **18. Adjournment of the ASRS Board**

Dr. Meredith adjourned the November 16, 2007 Board meeting at 10:45 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Anne Schrode, Secretary

Date

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Paul Matson, Director

Date